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SUBJECT: South Africa: Minerals and Energy Newsletter "THE ASSAY" - Issue 7, June 2008

This cable is not for Internet distribution.

¶1. (SBU) Introduction: The purpose of this newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

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HOT NEWS
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Godsell Confirmed as Eskom Chairman
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¶2. (SBU) Former AngloGold Ashanti CEO Bobby Godsell was appointed Chairman of state-owned power utility Eskom at the company's annual general meeting on July 17. Godsell is to replace Valli Moosa, who has faced criticism for South Africa's power crisis because he failed to lobby government to authorize expansion of electricity capacity when it was evident as early as 1998 that the country was heading for a power shortage. Godsell currently serves as Chairman of Business Unity SA (BUSA) and is also a former President of the Chamber of Mines. His appointment follows that of another prominent mining figure, former Kumba (iron ore company) CEO Ras Myburgh, and together it is hoped they will advise Eskom on coal procurement and provide the sorely-needed leadership and attention to detail in Eskom. Speaking at a recent conference on electricity, Godsell called for a "Team SA" approach to dealing with the energy crisis, asserting that the crisis was a national problem needing a national response. He also said that there was no point in having the cheapest electricity in the world if you did not have electricity.

¶3. (SBU) Godsell first endeared himself to the trade union movement, particularly the National Union of Mineworkers (NUM), during the 1999 gold crisis. He and the Acting Secretary General of the umbrella Congress of SA Trade Unions (Cosatu) went to London to demand a stop to both Central bank gold sales and the proposed IMF

sale of 10 million ounces (320 tons) of gold. They also marched together in the streets of Johannesburg to protest these sales. At the time, the gold price had fallen to $260 an ounce, average SA production cost was $246 an ounce, and the industry had shed more than 100,000 jobs in three years. NUM welcomed Godsell's appointment, but the National Union of Metalworkers of South Africa (Numsa) complained that they had not being consulted ahead of the appointment. Public disputes and divisions between Cosatu and Numsa have been reported in the past.

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ENERGY
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Policy Release for Nuclear Power
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¶4. (SBU) Minerals and Energy Department Chief Director of Nuclear
Q4. (SBU) Minerals and Energy Department Chief Director of Nuclear
Tseliso Maqubela said Minister Buyelwa Sonjica would shortly launch the new nuclear energy policy which was adopted by the cabinet last month. Maqubela said the major change between the final policy (not yet released) and the draft released for public comment last July (available on the SA DME web-site at http://www.dme.gov.za/energy/documents.stm) was the removal of a proposal to set up an agency devoted to nuclear security. He said this function would be performed by the National Nuclear Regulator (NNR), in line with international practice. He said nothing else had changed except the wording to indicate that nuclear would not be the only energy developed. Flexibility has been built into the



policy to accommodate the development of new technologies and changing market conditions. Maqubela said the SAG would no longer set a fixed target of 25% of total power generation for nuclear by 2025-2030 (from existing 6%) because clean coal technology or methods for carbon capture and storage are still being developed.

¶5. (SBU) Eskom is currently assessing bids from Westinghouse and Areva for construction of the first 3,000 megawatt tranche of proposed new nuclear power plants, but the decision on the preferred supplier has been deferred to September from June. Meanwhile, the SAG has enlisted the aid of a brand consultant, Freedthinkers, to give a make-over to the image of nuclear power in South Africa and attempt to correct misperceptions and apprehensions on the part of the public. Opponents fear that the move may be an attempt to short-circuit public consultation as the SAG presses ahead with its program to build five or six conventional plants and potentially twenty-four pebble-bed modular reactors.

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SAG Favors Recycling Nuclear Fuel
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¶6. (SBU) South Africa depends on coal for some 79% of its total energy and 23% of its liquid fuels requirements. Sasol's coal to liquid (CTL) process is a heavy emitter of greenhouse gases and has been tagged as the world's single biggest point source of $CO_2$. South Africa's heavy reliance on coal has also made it one of the world's highest emitters of greenhouse gases. The SAG approved a nuclear energy policy on June 18 that promotes atomic energy as a significant source for power generation, which would also ensure the reduction of unfriendly emissions. The Department of Minerals and Energy has been tasked to flesh out the practical details of the policy and oversee its implementation.

¶7. (SBU) The SAG has also issued a policy statement that its goal is to have local engagement in all phases of the uranium fuel and power chain, from mining to reprocessing of spent fuels to the construction of nuclear reactors, power stations and components for local use and export. The government is in favor of recycling the estimated 1,150 tons of highly radioactive spent fuel at Pelindaba and Koeberg, the bulk of it at Koeberg. Minerals and Energy Department's Nuclear Safety Director Schalk de Waal told a

Parliamentary Committee on Energy that the nuclear policy favored recycling because it was sustainable, provided energy security, could reprocess up to 95% of the spent fuel to produce new fuel for the reactors, and reduce the amount of disposable high-level waste. De Waal acknowledged there were international concerns, mainly from the United States, over reprocessing of used fuel. He said that although the recovered plutonium would not be weapons-grade it still offered the potential for making a nuclear bomb and that the United States was against reprocessing in terms of non-proliferation. He said that in view of the world energy crisis, the US could change its position.

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GOLD
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Global Gold Production Losing Steam
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¶8. (SBU) Global gold production has declined by some 5% since 2001, along with that from South Africa, Australia, Canada and the United States. Countries showing significant growth in output include China, Indonesia, Peru and Tanzania. South Africa was the leading gold producer for more than 100 years, but lost its crown to China last year. The country's output has declined steadily since the 1970's when production reached a peak of 1,000 tons (32 million ounces) and represented more than 75% of new global production. Output has gone from 480 tons in 1996 to 252 tons in 2007, and could be down to about 210 tons this year. South Africa's decline can be attributed to labor-intensive mining at ever increasing depths with associated problems and costs. South Africa is not alone in this dilemma. The gloss also appears to be coming off Australian gold mining. Australian production rose rapidly in the early 1980s with



the then rising gold price and new processing technology that enabled the treatment of oxide ores. Production remained strong into mid-2007 when several new factors kicked in. These included: decreasing grades; increasing operating and equipment costs; loss of skills to other mining sectors; less exploration due to hassles over indigenous land claims; and the cost of maintaining fly-in-fly-out workforces. Australia has now slipped from third rank to about sixth in global production, and its ability to stop the decline appears limited.

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PLATINUM GROUP METALS
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South Africa's Platinum Future
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¶9. (SBU) Platinum-group metals (PGMs, which include platinum, palladium, rhodium, iridium, ruthenium, and osmium) are South Africa's most important mineral resource. One ounce each of platinum and rhodium is worth about $2,000 and $10,000, respectively. PGMs accounted for $9 to $10-billion in exports, equivalent to 15% of total merchandise exports in 2007, followed by gold at $5-billion and coal at $3.5-billion. The industry employed some 170,000 people in 2007, and paid out $3 billion in wages. About 62,000 people were also employed in associated industries and an estimated total of 2 million people were sustained by the industry. Chemicals company Johnson Matthey reported South Africa's production in 2007 as 5.04 million ounces, down from 5.3 million ounces in 2006. South Africa holds 85% of the world's platinum reserves, most of it in North West province in the huge geological feature known as the Bushveld (Igneous) Complex.

¶10. (SBU) South Africa's gold output is declining and so are its reserves of diamonds, leaving platinum as the country's most formidable resource of precious metals and minerals. South Africa's PGM reserves should last well beyond 70 years at current levels of production and demand, and it is government's and industry's

responsibility to ensure that they are used strategically to promote industrial projects. The bulk of PGMs are used worldwide in the production of auto-catalytic converters to reduce noxious exhaust emissions from vehicles. The South African catalytic converter industry produces 16 million units every year, almost all of which are exported, and this represents about 15% of the global market, valued at $3 billion. The current high spot prices of platinum and rhodium are promoting the search for less costly substitutes, more efficient metal loadings, and more use of less expensive palladium ($450 per ounce). The unique chemical characteristics of the PGMs as durable and efficient catalysts make this unlikely in the near future.

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Reliable Water for Platinum
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¶11. (SBU) More than twenty mining developments are taking place on the Eastern Limb of the Bushveld Complex in South Africa, the world's greatest depository of platinum group metals (PGMs). These cover a strike length of more than 120 kilometers in Mpumulanga and Qcover a strike length of more than 120 kilometers in Mpumulanga and Limpopo provinces in the northeast of the country. The area lacked a reliable supply of water and was underdeveloped until the mining companies entered the area in the late 1990s. The upsurge in mining and commercial activity required that dams be built to remedy the situation. The SAG responded by initiating the Olifants River Water Project, which will supply water to mines, farmers and industry over a wide area, and include damming and raising dam walls on a number of water sources. The project cost is estimated at $1 billion and also involves the construction of pipelines and pump stations.

¶12. (SBU) The Department of Water Affairs and Forestry (DWAF) Minister recently signed a MOA with 23 mining houses for the development of phase 2 of the Olifants River project, which will be funded by private and State sources. This will facilitate further investment of $5.5 billion in the region by mines and their support industries will create about 90,000 jobs and generate $300 million



in wages each year. Mining companies have committed to off-take agreements for all future water requirements on a take-or-pay basis, where mines pay costs based on allocated capacity, regardless of water used. (Comment: The same financial arrangement is being proposed for the transport of bulk mineral commodities such as coal and iron ore. End Comment.)

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AFRICAN MINING
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Zambia Output 750,000 Tons Copper by 2009
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¶13. (SBU) Zambia's Minister of Mines Kalombo Mwansa has forecast that the country's copper output should increase to 600,000 tons this year, from 520,000 tons in 2007. This corresponds with the industry production target of 750,000 tons by 2009, with increases from expansions at First Quantum's Kansanshi mine and KCM's Konkola mine, and new production from Equinox's Lumwana mine. The Minister also estimated that smelter capacity would increase to about 300,000 tons during the next three years, from expansions at Mopani's Mufulira and Konkola's Nkana and Nchanga smelters, and new capacity from the smelter being built by Chinese investors at Chambishi Mine. Mwansa also expects production to come on stream from South African-based Teal Mining's Mwambashi mine, and from the smaller Kashime mine that is located off the Copperbelt in central Zambia. Some mining experts believe that Zambia is increasing its smelter capacity to meet a growing demand from producers in the DRC, given that the DRC government would be willing to moderate its demands for local beneficiation.

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Anglo "Shaken Down" in Zimbabwe
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¶14. (SBU) Zimbabwe hosts the second biggest known platinum (and chromite) deposit in the world, behind South Africa's Bushveld Complex. It is known as the Great Dyke that runs in a north-south direction for about 550 kilometers. For reasons such as its remote location, difficult geology, and political uncertainty associated with the Mugabe regime, only Impala Platinum (and its joint venture partner in the small Mimosa Mine) is successfully mining platinum in the country. Anglo Platinum recently announced its decision to invest $400 million to develop its Unki platinum project, which is also on the Dyke and has been idling along for years. This has cause a great uproar in international circles, particularly in the United States and Britain, which are seeking to impose sanctions on the Zimbabwean government in the wake of human rights violations. The U.S and Britain have accused Anglo of propping up the regime and undermining current and future international sanctions. Anglo American responded by saying that their choice was to either invest in developing Unki or lose it to the government, which would have no difficulty in finding Chinese or Russian developers.

¶15. (SBU) Media reports and discussions with senior management confirm that the Zimbabwe government forced Anglo Platinum to enter into a deal to give up some 31% of Unki's lease area in exchange for
Qinto a deal to give up some 31% of Unki's lease area in exchange for
indigenization (empowerment) credits. In a similar situation two years ago, Impala Platinum was forced to cede 36% of their Zimplats Mine concession to the government for indigenization credits. There is uncertainty about who may have been awarded these claims, but it appears they have been passed on to either Chinese interests or to Mugabe cronies, including UK-listed mining junior Central African Mining and Exploration (Camec). Camec recent lent $120 million to the GOZ in mid-April to fund President Robert Mugabe's election campaign. The loan was conditional on Camec getting the Unki claims, which they did in April (for $120 million). Anglo Platinum's underground development intercepted the orebody in September 2007, and initiated the build-up of an ore stockpile. Unki plans to mine 120,000 tons of ore per month and produce a PGM concentrate that would be transported to the Anglo Platinum refinery in South Africa. Camec has said that it plans to bring a mine into production within 18 months and produce between 120,000 and 150,000 ounces of platinum per year at a capital cost of about $200 million.



BOST